

This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 02 AMMAN 004330

SIPDIS

TREASURY FOR A. DEMOPULOS  
CPA FOR J. VARDAMAN

E.O. 12958: DECL: 05/24/2014

TAGS: [EFIN](#) [ETTC](#) [EAID](#) [IZ](#) [JO](#)

SUBJECT: VISITING IMF TEAM IMPRESSED BY THE STATE OF  
JORDAN'S ECONOMY

Classified By: AMB: EGNEHM, JR. for Reasons 1.5 (b) and (d).

[11.](#) (C) SUMMARY: At the end of a two-week mission, a visiting IMF team tallied a long list of indicators reflecting the current strength of Jordan's economy. Economic growth continues to build momentum and the IMF has increased its estimate for real growth in Jordan's GDP this year to 5.5%. Finance Minister Mohammad Abu Hammour continues to impress the IMF with his control over government spending and in his success in bringing all types of spending under the government budget for 2005. In addition, tax administration continues to improve, with higher tax revenues targeted for deficit reduction and debt repayments. The IMF team reported that Abu Hammour would be seeking to raise Jordan's debt swap limits with the Paris Club when he visits Paris in June. The IMF team's only concern regarding Jordan's economic health was how long Minister Hammour would be able to fend off demands for increased spending, particularly from Planning Minister Bassem Awadallah.

[12.](#) (C) Monetary policy, too, goes well, with a current account surplus equivalent to 5% of GDP. Inflation registered 3.6% in April but, excluding the GST increase and the fuel price rises that affected the April figures, the underlying rate of inflation remains at 2%. Regarding the \$1.3 billion in Central Bank of Jordan claims on Iraq, the IMF team said such claims were not normally defined as government-to-government debt. (NOTE: The IMF team will be submitting the findings of this mission in its semi-annual report to the IMF on Jordan. END NOTE.) END SUMMARY.

-----  
FISCAL POLICY GOING WELL  
-----

[13.](#) (C) At the close of their two-week mission to Jordan, visiting IMF officials reported to E/COUNS their satisfaction with the state of Jordan's economy. The 1st quarter of 2004 registered real growth of 7-8%, driven largely by a surge in exports. Credit growth was also up by 4.9%, helping fuel the economic expansion. Although Jordan's economy is unlikely to continue the high growth rate of the 1st quarter, the IMF is already revising upwards its estimated growth for the year for Jordan from 5% to 5.5%.

[14.](#) (C) The IMF team continues to be very impressed by Jordan's Finance Minister Mohammad Abu Hammour. The IMF welcomed the GOJ's decision in March to raise the GST from 13% to 16%, higher than the IMF's request for a rise to 15%. The GST increase and the average 9% increase in fuel prices, both of which took place in April, combined with improvements in tax administration to produce a healthy fiscal picture. The Finance Ministry has agreed to apply increased tax revenues to reducing the deficit and/or paying down debt. (NOTE: One downside of the increase in fuel prices for the government is that the government now owes the Zarga refinery JD 120 million ((\$ 168 million)) for additional subsidies it must pay the refinery. END NOTE.)

[15.](#) (C) The main concern of the team in the area of fiscal policy was whether Abu Hammour would be able to continue his tight control over government spending. The team was particularly concerned about Abu Hammour's ability to hold off spending requests from Planning Minister Bassem Awadallah. However, the team was reassured by the fact that Abu Hammour had been successful in consolidating the budget and bringing all government spending under next year's budget. (COMMENT: Previously, Planning Minister Awadallah had controlled an off-budget account which had included USAID cash transfer funds. According to the IMF, under the new consolidated budget, additional cash transfers from the U.S. to Jordan would then generate the need for a supplemental allocation to spend those funds, as occurs in the U.S. This would give the Finance Ministry tighter, more comprehensive control over government spending. END COMMENT.)

-----  
THE MONETARY PICTURE  
-----

[16.](#) (C) The monetary picture is also good. The current account registered a surplus equivalent to 5% of GDP. The

inflation rate was up 3.6% in April but this reflected the fuel price increases and the increase in the GST. The IMF estimates the underlying rate of inflation at only 2%. If the U.S. raises interest rates in the coming months, Jordan's interest rates will also rise. However, provided the increases are gradual, the effect on Jordan's economy should be muted, particularly if inflation remains under control.

17. (C) In terms of exchange rates, the Jordanian government told the IMF that it has no current plans to float the Jordanian dinar. The government fears that the continued uncertainty in Iraq could cause too much volatility for a JD without its dollar peg.

-----  
DEBT SITUATION ALSO LOOKING UP  
-----

18. (C) Abu Hammour told the IMF that he wanted to raise Jordan's debt swap limits with the Paris Club. He will lodge the request with the Paris Club during a visit to Paris in June. He will seek an increase in the limits from 30% to 40%. According to the IMF, this would be the first time any country has requested such an increase.

19. (C) The IMF team estimated Jordan's debt/GDP ratio for 2004 at 92.7%. This presumes that Jordan continues to follow its privatization schedule and includes JD 12 million (\$16.8 million) in savings from paying off Jordan's Brady bonds early.

-----  
IRAQ ISSUES  
-----

10. (C) When asked about the impact of the Central Bank of Jordan's (CBJ) \$1.3 billion claim on Iraq, the IMF team said that if the CBJ were forced to write it off, the CBJ would have to be re-capitalized immediately. This would have a severe impact on Jordan's debt picture. However, the IMF officials said that this type of account would not normally be defined as government-to-government debt. As a result, it should not be part of any debt write-offs negotiated for the new Iraqi government.

-----  
SAUDI OIL  
-----

11. (C) The IMF team said that the GOJ had confirmed that the Saudi government had finalized its offer of a grant of 50,000 barrels of oil per day to Jordan. However, the assessment of the IMF was that the grant would barely offset the much higher oil costs for the Jordanian government due to the currently high level of oil prices.

GNEHM